Forest Carbon Partnership Facility

Cost Recovery Options

Twelfth Meeting of the Carbon Fund (CF12)

Paris, France

April 28-30, 2015

FOREST CARBON PARTNERSHIP FACILITY

Cost Recovery - What Costs? (1)

- Costs related to ER Program Preparation, pre-ERPA signature e.g.:
  - Assistance to REDD Country Participants in preparing ER Programs (Preparation of ER-PINs, ER-PDs)
  - FMT and World Bank Global Practice (GP) staff time and travel for program preparation (Country Advisory Support and part of Program Development in budget)
  - Preparation of ER-PD (part of Program Development in budget)
  - TAP review
  - ER Program assessment (including due diligence for World Bank operational policies and procedures (including social and environmental safeguards))
  - Preparation/execution of ERPA

Cost Recovery - What Costs? (2)

- Costs related to ER Program implementation/supervision, post-ERPA signature e.g.:
  - Implementation support costs to assist REDD Country Participants in keeping ER programs on track
  - Supervision costs to help ensure that the ER program complies with applicable World Bank operational policies and procedures as well as specific ERPA provisions
  - Verification costs
  - Communication with registries/other (international) bodies
  - Revision/review of ER Program-related documents

Carbon Fund ER Program Costs

ER Program Costs					
	Cost per year ($000s)	No of years	Cost per project ($000s)	No of projects	Total Cost ($000s)
Program Development - across portfolio					447
Preparation			650	9	5,850
Preparation (dropped)			200	2	400
Supervision	125	5	625	9	5,625
Validation				9	
Verification	20	5	100	9	900
Country Advisory Support			375	9	3,375
TAP			90	9	810
Total ER Program Costs				**9**	**17,407**

Assumptions

Number of programs: 9

Average ERPA term: 5 years

Program Preparaton costs per Program: $650k

Number of dropped Programs: 2 (at $200k each)

Supervision Costs per Program: $625k

Verification Costs per Program: $100k

No Validation Costs

Cost Recovery Options(1)

- Option 1: Costs borne by the Carbon Fund
  - Paid by Carbon Fund, and borne by the Carbon Fund (except in the case of Intentional Breach)
  - No cost recovery from Seller
  - This option, where all costs paid by the CF are borne by the CF, has been assumed in all CF long-term financial plans
  - Assumption is that this is the default option in bilateral arrangements
  - Also assumed that these bilateral arrangements follow a similar pricing approach to that proposed by the CFPs in Bonn in June 2014 (ie a willingness to pay up to US$5/t CO2e)
  - This option of no cost recovery "in principle" is recommended by FMT
  - "in principle" allows the fund and REDD Countries to plan but also allows for negotiations

Cost Recovery Options (2)

- Option 2: Cost Recovery via ERPA payment deductions
  - Certain costs paid by the CF are recovered from the Seller
  - Subject to certain cost caps for each category of costs
  - Excludes FCPF Bank-executed grant funding
  - WB has experience of this option in other Carbon Funds
  - Complex and difficult to implement, costly, potentially difficult relationships, particularly if ERs are less than expected
  - Costs usually deducted early so incentives and early funding are at a minimum
  - This is the least preferred option and is not recommended by FMT

Cost Recovery Options (3)

- Option 3: Cost Recovery via Cost Recovery Discount
  - Certain discount applied to periodic payment for any transferred ERs (eg. 2.0% of each ER payment , $100k on ER payment of $5 million)
  - If ER Program does not generate any/the expected amount of ERs, there is no/reduced Cost recovery
  - FMT recommends this as the cost recovery method for any extraordinary cost recovery outside of the established principle

Decisions for this Meeting

- Can CFPs agree on no cost recovery (Option 1) “in principle”, as recommended by the FMT?
- In the event of the need for any extraordinary cost recovery outside of the established principle, can CFPs agree to use Cost Recovery Discount (Option 3)?

THANK YOU!

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